DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR

ISAAC W. CHOY
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Donovan M. Dela Cruz, Chair;
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Isaac W. Choy, Director
Department of Taxation

Date: April 1, 2021
Time: 9:30 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 286, H.D. 1, S.D. 1, Relating to Real Estate Investment Trusts

The Department of Taxation (Department) supports H.B. 286, H.D. 1, S.D. 1, and offers the following analysis for your consideration. S.D. 1 has an effective date of January 1, 2022.

H.B. 286, H.D. 1, S.D. 1, mandates that the Department require real estate investment trusts (REITs) to notify the Department of their operations in the state and to designate and properly complete their tax returns, including attaching the federal tax return to their state tax return. The bill imposes a $50.00 per day fine for noncompliance.

The Department notes that although REITs are already required to designate themselves as REITs on their tax returns, to complete their tax returns as specified, and to include their federal returns with their state returns. The imposition of a fine adds another compliance tool the Department can use to ensure compliance. The requirement that REITs notify the Department of their operation in the state is likewise helpful in that it will put the Department on notice to expect a tax return from another REIT. The statistical information gained from these returns will help guide policy makers in the future.

Thank you for the opportunity to provide testimony on this measure.

Committee on Ways and Means on Real Estate Investment Trusts
April 1, 2021 at 9:30 a.m.
Conference Room 211

SUPPORTING HB 286 HD1 SD1

Faith Action for Community Equity supports HB 286 HD1 SD1.

Real Estate Investment Trusts (REITs) play a significant role in Hawai'i's economy, yet the assets and revenues generated by REITs have not been reported to and recorded accurately by the State. Transparency on assets, revenues, deductions, tax status (among other factors) will be necessary to more accurately assess how much REITs affect our economy. REITs already report this same information to the IRS.

Hawai'i will likely face major budget shortfalls for the foreseeable future as the nation deals with the COVID-19 pandemic, high unemployment rates and an economic recession. Faith Action believes deep government spending cuts would have a catastrophic effect on our already hurting economy and people. We need to ensure now, more than ever, that those in need continue receiving essential social services.

For the last several years, taxation on REITs has been an ongoing issue as both sides argue their opponents rely on faulty figures. Lawmakers have the chance to set the record straight on REITs by requiring they submit information on their assets and revenues on an annual basis.

Once this bill is codified, the State can objectively evaluate how much revenue we lose by keeping the dividends paid deduction in place for REITs. During a time when we should be looking for every opportunity to close the deficit, accurate information around progressive tax options will be critical.

Even the Department of Taxation noted that while REITs are already required to designate themselves as REITs on their tax returns, to complete their tax returns as specified, and to include their federal returns with their state returns, ***adding a fine adds another compliance tool which suggests that perhaps the information offered to DOT currently isn't exhaustive.*** The Department also noted that the statistical information gained from these required tax returns and notifications would help guide policymakers in the future, as we previously mentioned above.

Transparency is necessary for accountability. We believe REITs should provide the State any and all information it provides to the IRS.

For the foregoing reasons, Housing Now! supports HB 286 HD1.

ADA HAWAI'I
AMERICANS FOR DEMOCRATIC ACTION

OFFICERS	DIRECTORS			MAILING ADDRESS
John Bickel, President	Melodie Aduja	John Miller	Bill South	P.O. Box 23404
Alan Burdick, Vice President	Juliet Begley	Jenny Nomura	Zahava Zaidoff	Honolulu
Dave Nagajji, Treasurer	Stephanie Fitzpatrick	Stephen O'Harrow		Hawaii 96823
Doug Pyle, Secretary	Jan Lubin	Lyn Pyle		

March 26, 2021

TO: Chair Dela Cruz and members of WAM Committee

RE: HB 286 HD1 SD1 Relating to Real Estate Investment Trusts

Support for hearing on April 1

Americans for Democratic Action is an organization founded in the 1950s by leading supporters of the New Deal and led by Patsy Mink in the 1970s. We are devoted to the promotion of progressive public policies.

We support HB 286 HD1 SD1 as it would require real estate investment trusts to notify the State Department of Taxation of its presence within the State and to report the assets and revenues generated annually. We would really like to tax them more, but this is a start.

Thank you for your favorable consideration.

Sincerely,
John Bickel, President

March 31, 2021

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Senate Committee on Ways and Means
Hawaii State Capitol
415 Beretania St.
Honolulu, HI 9813

RE: SIAH letter in opposition to HB 286, HD1, SD1 on proposed changes to Real Estate Investment Trusts ("REITs")

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Senate Committee on Ways and Means.

The Securities Industry Association of Hawaii (SIAH) was formed over 20 years ago to foster communication among Hawaii Securities firms, regulators, and the legislature. Our members represent the combined concerns of our hundreds of employees who serve thousands of Hawaii clients.

From our reading of the bill, it appears that there may be a new proposed tax on the REIT's income even though current law, federal and state, allows that if the REIT distributes 90% of the income, there is no corporate tax. We are only aware of one state that taxes this income.

1. **Given the current economic conditions, we feel that the potential of assessing a new tax on properties that are already struggling here in Hawaii is not warranted.** Further, the people and organizations that own shares in these products are certainly already expecting a decline in income due to the crisis. Do we really want to take more from them?

2. **It is also a real possibility that REIT product originators will avoid Hawaii properties as the income may be less due this tax.** And, those properties already in a REIT portfolio may be swapped out for those in other states.

3. **The vast majority of REIT shareholders are not rich.** They own shares as this is the most efficient way to invest in income producing real estate. As financial advisors, we would most likely have to recommend a REIT without Hawaii properties as more suitable for our clients.

We urge the committee to reject this bill. If a new tax is really needed, we suggest that you follow the lead of the federal government and other states in the ensuing years.

The SIAH appreciates the opportunity to provide input on this bill. Please do not hesitate to contact me at 808-625-2596 with any questions.

Sincerely,

Tony Goodrum
President.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Collect information from real estate investment trusts.

BILL NUMBER: HB 286, SD1

INTRODUCED BY: Senate Committee on Commerce and Consumer Protection

EXECUTIVE SUMMARY: Requires real estate investment trusts to notify the department of taxation of its presence within the State and to report the assets and revenues generated annually. Imposes a daily monetary fine for noncompliance.

SYNOPSIS: Amends section 235-71, HRS, to provide that beginning 1/1/2022, a REIT shall:

(1) Notify the department, in the manner prescribed by the department, of its operation as a real estate investment trust in the State no later than 15 days from the first day of operation in the State; provided that for real estate investment trusts operating in the State as of July 1, 2021, the department shall be notified no later than January 15, 2022;

(2) Properly designate on its tax return that it is a real estate investment trust as required by the department;

(3) Complete its tax return in the specific manner required by the department, including following line-by-line instructions; and

(4) Submit a copy of the federal return covering the same period with each Hawaii return.

Provides that any real estate investment trust that fails to comply with these requirements shall be assessed a penalty of $50 per day.

EFFECTIVE DATE: 1/1/2022.

STAFF COMMENTS: Currently under federal and state income tax law, a real estate investment trust (REIT) is allowed a dividend paid deduction, unlike most other corporations, resulting in that dividend being taxed once, to the recipient, rather than to the paying corporation. The proposed measure would make that section of the IRC inoperative for Hawaii income tax purposes for tax years beginning after 12/31/20, meaning that REITs would be subject to double taxation like other corporations.

All state income tax systems in the United States, including ours, have a set of rules that are used to figure out which state has the primary right to tax income. For example, most tax systems say that rent from real property is sourced at the location of the property, so if a couple in Florida rents out a property they own on Maui they can expect to pay our GET and our net income tax on that rent. These sourcing rules, which do vary by state but are relatively consistent across state lines, are there to assure consistent and fair treatment between states.

Real estate investment trusts (REITs) are source shifters. For income tax purposes, they take in rent income, which is sourced to the location of the property being rented. They don't pay income tax on that income as long as they distribute the money to their shareholders as dividends. The dividend income of their shareholders, on the other hand, is generally sourced to the residence of the shareholders. So, the income that the property states expected to tax is instead taxed in the states in which the shareholders live. And, to the extent that REIT shares are held by tax-exempt entities such as labor unions and retirement funds, passive income such as dividends may not be taxed at all. Source shifting is an issue specific to state taxation.

In 2019, the Legislature passed but the Governor vetoed SB 301 (2019), which would have taken away the dividends paid deduction for REITs, making them taxable for state purposes like any other corporation.

Presently, the Department of Taxation does not have a separate form for REITs. REITs file a corporate income tax form, the N-30, for state purposes but report their dividend paid deduction on the return as a miscellaneous deduction. As a result, data on Hawaii REITs is not captured in the Department's computer system and is, therefore, largely based on guesswork. The current bill appears to be an attempt to capture more robust data on those REITs.

Digested 3/27/2021

Hawaii
Children's Action Network Speaks!
Building a unified voice for Hawaii's children

Hawaiʻi Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: Senate Committee on Ways and Means

Re: **HB 286, HD1, SD1 - Relating to real estate investment trusts**
Hawaiʻi State Capitol, room 211 and videoconference
April 1, 2021, 9:30 AM

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and committee members,

On behalf of Hawaiʻi Children's Action Network Speaks!, I am writing in SUPPORT with AMENDMENTS of HB 286, HD1, SD1 - Relating to real estate investment trusts. This bill would authorize the department of taxation to require real estate investment trusts (REITs) to notify the department of its presence within the State and to report the assets and revenues generated annually.

As the state legislature is facing revenue shortfalls, it's important to keep in mind that government spending cuts would further harm our already injured economy, as well as hobble social services that have become more and more essential to Hawaiʻi's keiki and their families during this pandemic crisis.

That's why we support range of progressive tax options to close the deficit without slashing critical government spending. One of these policies is requiring REITs to pay tax on their income, as other corporations in Hawaiʻi are required to do. As so many of our working families struggle, it makes sense to ask REITs to pay their fair share.

REITs have a special tax loophole that exempts them from paying corporate income tax on the dividends paid to its shareholders, which comprise at least 90 percent of the income REITs generate. **Hawaiʻi REITs' income should be taxed so they help support the communities in which they operate.**

Every other individual and corporation doing business in Hawaiʻi is subject to state income tax. And even if the Hawaiʻi REITs tax loophole were closed, REITs would still receive the valuable federal tax break they currently have, and they would continue to benefit from Hawaiʻi's extraordinarily low property tax rate.

While Hawaiʻi has more land value tied up in REITs than any other state, relatively few Hawaiʻi residents own shares in REITs—we rank 40th in the nation for the number of REIT shareholders as a percentage of the population. As a result, not only is income produced on Hawaiʻi property leaving the state, but the income that is getting funneled out of the state is not getting taxed here either.

This bill provides a good start, but Hawaiʻi should go further and actually tax REITs' income, so **we respectfully request that HB 286, HD1 be amended to eliminate the REITs tax loophole, as HB 283 does**. Mahalo for the opportunity to provide this testimony. Please pass this bill with our suggested amendments.

Thank you,
Nicole Woo
Director, Research and Economic Policy

850 Richards Street, Suite 201 • Honolulu, HI 96813 • 808-531-5502
speaks.hawaii-can.org • speaks@hawaii-can.org

Douglas Emmett

March 30, 2021

Senator Donovan Dela Cruz, Chair
Senator Gilbert Keith-Agaran, Vice Chair
Committee on Ways and Means

RE: HB 286 HD1 SD1 - Relating to Real Estate Investment Trusts – Comments
April 1, 2021; 9:30 AM; Via Videoconference

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee:

Douglas Emmett appreciates this opportunity to offer comments on HB 286 HD1 SD1, which authorizes the department of taxation to require real estate investment trusts to notify the department of its presence within the State and to report the assets and revenues generated annually.

Douglas Emmett currently provides the information requested in HB 286 HD1 SD1 through income and tax returns filed annually with the State Department of Taxation. Schedule P of Form N-30 lists our assets and revenues. We also file GET taxes on a monthly (form G-45) and annual (form G-49) basis.

Thank you for the opportunity to provide comments on this measure.

Respectfully,

Kevin Crummy
Chief Investment Officer

Michele Aronson
Senior Vice President

49 South Hotel Street, Room 314 | Honolulu, HI 96813
www.lwv-hawaii.com | 808.531.7448 | voters@lwv-hawaii.com

COMMITTEE ON WAYS AND MEANS
THURSDAY, 4/1/21, 9:30 AM, Room No. 211

HB286 HD1 SD1 RELATING TO REAL ESTATE INVESTMENT TRUSTS
Beppie Shapiro, Legislative Committee, League of Women Voters of Hawaii

Chair Dela Cruz, Vice-Chair Keith-Agaran, and Committee Members:

The League of Women Voters of Hawaii supports and offers a comment on this bill, which requires Real Estate Investment Trusts (REITs) to report to the Department of Taxation their operation in the state and their annual assets and revenues.

The League of Women Voters is a grassroots, nonpartisan, activist organization which supports an equitable tax system that is progressive overall and that relies primarily on a broad-based income tax.

Hawaiʻi has more land value tied up in REITs than any other state, including the International Marketplace, Pearlridge and Ala Moana Shopping Centers, Hilton Hawaiian Village and others.

REIT shareholders pay income tax on their REIT dividends, but Hawaii does not get those taxes unless those shareholders pay their income taxes here. Relatively few Hawaiʻi residents own shares in REITs — the percent of REIT shareholders among our population ranks 40th in the USA. REIT Income that is leaving the state is not getting taxed here.

Even if Hawaiʻi's REIT tax loophole is closed, REITs will still benefit from the more valuable federal tax break they have, plus they would still benefit from Hawaiʻi's extraordinarily low property tax rates.

The current situation is unfair to our taxpayers. Every other individual and corporation doing business in Hawaiʻi pays state income taxes. If REITs' shareholders pay their fair share of taxes, that can reduce the tax burden on the rest of us or provide additional revenue for government services our residents need.

Therefore in addition to requiring annual reports from REITs in Hawai`i, we suggest that it is already appropriate to make those REITs' shareholders subject to income tax in Hawai`i.

Thank you for the opportunity to submit testimony.

NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

March 31, 2021

The Honorable Senator Donovan Dela Cruz, Chair
The Honorable Senator Gilbert Keith-Agaran, Vice Chair
Senate Committee on Ways and Means

RE: **HB 286 HD1 - Relating to Real Estate Investment Trusts**
Hearing date: Thursday, April 1, 2021 at 9:30AM

Aloha Chair Dela Cruz and Members of the Committee,

Mahalo for the opportunity to submit testimony on behalf of NAIOP Hawaii to provide **COMMENTS** on HB 286, HD1. NAIOP Hawaii is the local chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals. NAIOP Hawaii strongly supports the development of housing for Hawaii residents at all levels of income, especially affordable housing projects.

HB 286, HD1 requires real estate investment trusts to notify the Department of Taxation of its presence within the State and to report the assets and revenues generated annually. Further, the measure imposes a daily monetary fine for noncompliance.

As a practical matter, HB 286, HD1 is unnecessary. Currently, the instructions for the Hawaii Form N-30 already require a REIT that has an income tax filing obligation in Hawaii to include a copy of its Form 1120-REIT, which is the US federal income tax return filed by REITs. As such, this measure creates a requirement to provide documents that already need to be disclosed.

Mahalo for your consideration,

Catherine Camp, President
NAIOP Hawaii

ALEXANDER & BALDWIN

PARTNERS FOR HAWAI'I

HB 286 SD1
RELATING TO REAL ESTATE INVESTMENT TRUSTS

PAUL T. OSHIRO
DIRECTOR – GOVERNMENT AFFAIRS
ALEXANDER & BALDWIN, INC.

APRIL 1, 2021

Chair Dela Cruz and Members of the Senate Committee on Ways & Means:

I am Paul Oshiro, offering comments on behalf of Alexander & Baldwin (A&B) on HB 286 SD1, “A BILL FOR AN ACT RELATING TO REAL ESTATE INVESTMENT TRUSTS.”

While A&B has always been a Hawaii-based company, in 2012, A&B made a strategic decision to be 100% Hawaii-based and to migrate its mainland investments back to Hawaii. Since then, A&B has sold all of its mainland properties and has reinvested the proceeds in Hawaii—acquiring properties including the Kailua Town commercial center, Manoa Marketplace, Waianae Mall, Laulani Village (Ewa Beach), Puunene Shopping Center (Maui), and Hokulei Village (Kauai). In 2017, to better support our Hawaii-focused strategy and increase our ability to invest in Hawaii in an increasingly competitive environment, A&B made the decision to convert to a real estate investment trust (REIT). A REIT structure enables A&B to attract new investors to its stock, giving us capital to invest in our Hawaii-focused strategy, and puts us in a better position to compete with large, out-of-state investors, with greater sources of capital, for the acquisition of Hawaii properties, thus keeping them in locally-owned hands, with a management team that lives here and is committed to Hawaii. Furthermore, REITs are structured to be long-term holders of real estate, thus complementary to A&B's goal of being Partners for Hawaii, with a long-term commitment to our communities.

In addition to selling all of our mainland properties and reinvesting the proceeds in Hawaii, A&B also brought all of its previously contracted out property management services and activities in house, which enables direct contact between A&B employee property managers and our tenants. This has been extremely helpful for both A&B and our tenants, especially during the COVID pandemic, as individualized discussions and initiatives to sustain and assist tenant businesses were identified and pursued. A&B will continue to closely work with our tenants to support their business operations as best we can both during the COVID pandemic, and beyond.

Real estate investment trusts were established by Congress in 1960 to enable all types of investors to invest in real estate. REITs generally own, operate, and finance income-producing commercial real estate such as shopping malls, hotels, self-storage facilities, theme parks, and apartment, office, and industrial buildings. Other REITs provide financing for income-producing real estate by purchasing or originating mortgages and mortgage-backed securities, which provides liquidity for the real estate market.

In Hawaii, REIT investments help communities grow through the development of workforce rental housing, medical facilities, and shopping centers that enhance our quality of life. REITs own high-quality office, retail, and industrial space, which provide a favorable environment for numerous locally owned businesses to operate and grow. These REIT owned facilities also provide numerous employment opportunities and jobs for Hawaii's residents.

The purpose of this bill is to require REITs operating in Hawaii to notify the State of the REIT's presence and to annually provide information required by the Department of Taxation, including a copy of the REIT's federal return, with the REIT's state tax return. It is our understanding that the Department of Taxation presently has the general authority to prescribe forms and/or to require pertinent tax related information to be provided to the department. We respectfully defer to the legislature and the department on whether the specific codification in statute of this authority will enhance the department's ability to levy, assess, collect, receive, or enforce the payment of taxes.

Thank you for the opportunity to testify.

HAWAII STATE TEACHERS ASSOCIATION
Teaching Today for Hawaii's Tomorrow

1200 Ala Kapuna Street ♦ Honolulu, Hawaii 96819
Tel: (808) 833-2711 ♦ Fax: (808) 839-7106 ♦ Web: www.hsta.org

Corey Rosenlee
President

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Vice President

Logan Okita
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Wilbert Holck
Executive Director

TESTIMONY BEFORE THE SENATE COMMITTEE ON WAYS & MEANS

RE: HB 286, HD1, SD1 - RELATING TO TAXATION OF REAL ESTATE INVESTMENT TRUSTS

THURSDAY, APRIL 1, 2021

COREY ROSENLEE, PRESIDENT
HAWAII STATE TEACHERS ASSOCIATION

Chair Dela Cruz and Members of the Committee:

The Hawaii State Teachers Association **supports HB 286, HD1, SD1**, relating to taxation of real estate investment trusts, **with suggested amendments**. This bill authorizes the department of taxation to require real estate investment trusts to notify the department of its presence within the State and to report the assets and revenues generated annually. Effective 1/1/2022. (SD1).

Although this bill is a start, to figure out what types of revenue the state could be collecting taxes on, if the law did not exempt REITS from tax collection, this bill doesn't go far enough, and needs to be amended to include the language needed from SB 2697 in 2020 REITS bill, which would change this bill to disallow dividends paid deduction for real estate investment trusts. The legislature already knows that real estate investment trusts in Hawaii own real estate assets of approximately $17,000,000,000, generating an annual income of $1,000,000,000, which, if taxed at the current corporate rate assessed to all other corporations, would generate Hawaii tax revenues of $65,000,000 per year. A 2016 analysis conducted by the department of business, economic development, and tourism concluded that the State had foregone about $36,000,000 in income tax revenues in 2014, and that the amount of real estate investment trust investments has risen substantially since then. So yes, as this bill stipulates, REITS should report their presence in the state as well as report their assets and revenues generated annually, but we also implore you to go further, to help the current deficit in the state budget, as the legislature sought to do last year.

Hawaii has some of the most highly coveted real estate in the nation not only due to its gorgeous scenery, appeal as a tourist destination, and status

as an urban hub in the middle of the pacific but also because it has <u>the lowest property tax rate in the nation</u>. These factors have led to an explosion in real estate development throughout the islands, including real estate owned by real estate investment trusts or REITs. In fact, REITs own approximately $17 billion worth of real estate in Hawai'i—more than any other state on a per capita basis. Meanwhile, Hawaii real estate values continue to skyrocket, making it harder and harder for Hawaii residents to afford living at home. Without a disincentive to investors and speculators, Hawaii will continue to experience an exponential increase in real estate property values and those barely making it in Hawaii will be even closer to homelessness.

Unlike corporate investors, investors in real estate investment trusts are exempt from paying corporate income tax on dividends. Thus, dividends from REITS are taxed only once at the shareholder level, and these taxes are paid in the form of income tax to the investor's home state. The implication of this is that while the state plays host to REITs, it receives virtually no taxes from REITs. Because Hawaii ranks 40th in the nation for the number of REIT shareholders as a percentage of the population, income taxes paid on dividends by shareholders are, for the most part, going out of state.

Decoupling Hawaii's income tax treatment of REITs from federal income tax treatment would generate $65 million in annual revenue which would take money made off of real estate investments in Hawaii and inject it back into the people of Hawaii. **In fact, this funding could be used to end Hawaii's teacher shortage crisis by providing a dedicated revenue stream to fund salary adjustments for veteran teachers and pay differentials for teachers in special education, Hawaiian language immersion, and hard-to-staff positions salary adjustments.**

The Hawaii State Teachers Association implores you to add language to this bill that would disallow dividends paid deduction for real estate investment trusts as this would provide a dedicated revenue stream to help end the teacher shortage crisis and make up for other losses in state revenue, and to provide a disincentive to the real estate investment and speculation driving up property values in our state we ask you to **support this bill, w/amendments.**

HB 286, HD 1, SD 1, RELATING TO REAL ESTATE INVESTMENT TRUSTS

APRIL 1, 2021 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support.

RATIONALE: Imua Alliance supports HB 286, HD 1, SD 1, relating to real estate investment trusts, which authorizes the department of taxation to require real estate investment trusts to notify the department of its presence within the State and to report the assets and revenues generated annually.

We hope that this measure will be a step toward the closure of our Hawai'i's REITs tax loophole. Under state taxation law, REITs are currently afforded an exemption from paying corporate income taxes on dividends paid to shareholders. REIT shareholders, however, pay federal and state income taxes on their earnings from the REIT in which they have invested.

Unfortunately, since most shareholders of Hawai'i REITs don't live in the Aloha State, they pay income taxes in other locations (if such income is subject to taxation in the states in which they reside, which it often is not). Thus, income generated from Hawai'i properties is being taxed elsewhere, if at all, sending sorely needed revenue for public education, basic infrastructure, climate change mitigation and adaptation, human and social services, affordable housing, public health, and pandemic response outside of our shores during a time of economic crisis.

Over 30 REITs operate in our state, perhaps the most prominent of which is Alexander and Baldwin. REIT properties in the islands include Ala Moana Center, International Marketplace, and

Kris Coffield, Executive Director · (808) 679-7454 · kris@imuaalliance.org

the Hilton and Hyatt Hotels. Notably, CoreCivic, formerly the corruption-plagued private prison firm Corrections Corporation of America, is also a REIT, making closure of the REITs loophole not just a matter of economic justice, but also a hallmark of our state's commitment to criminal justice reform.

Collectively, Hawai'i REITs own over $17 billion worth of real estate and produce $1.3 billion in dividend income that is exempt from the corporate income tax, which amounts to $40-$60 million per year in lost tax revenue–a number that will only increase over time, as real estate values continue to soar.

Kris Coffield · Executive Director, Imua Alliance · (808) 679-7454 · kris@imuaalliance.org

HOUSE BILL 286, HD 1, SD 1, RELATING TO REAL ESTATE INVESTMENT TRUSTS

APRIL 1, 2021 · SENATE WAYS AND MEANS COMMITTEE · CHAIR SEN. DONOVAN DELA CRUZ

POSITION: Support.

RATIONALE: The Democratic Party of Hawai'i Education Caucus supports HB 286, HD 1, SD 1, relating to real estate investment trusts, which authorizes the department of taxation to require real estate investment trusts to notify the department of its presence within the State and to report the assets and revenues generated annually.

We hope that this measure will be a step toward the closure of our Hawai'i's REITs tax loophole. Under state taxation law, REITs are currently afforded an exemption from paying corporate income taxes on dividends paid to shareholders. REIT shareholders, however, pay federal and state income taxes on their earnings from the REIT in which they have invested.

Unfortunately, since most shareholders of Hawai'i REITs don't live in the Aloha State, they pay income taxes in other locations (if such income is subject to taxation in the states in which they reside, which it often is not). Thus, income generated from Hawai'i properties is being taxed elsewhere, if at all, sending sorely needed revenue for public education, basic infrastructure, climate change mitigation and adaptation, human and social services, affordable housing, public health, and pandemic response outside of our shores during a time of economic crisis.

Over 30 REITs operate in our state, perhaps the most prominent of which is Alexander and Baldwin. REIT properties in the islands include Ala Moana Center, International Marketplace, and the Hilton and Hyatt Hotels. Notably, CoreCivic, formerly the corruption-plagued private prison firm Corrections Corporation of America, is also a REIT, making closure of the REITs loophole not just a matter of economic justice, but also a hallmark of our state's commitment to criminal justice reform.

Collectively, Hawai'i REITs own over $17 billion worth of real estate and produce $1.3 billion in dividend income that is exempt from the corporate income tax, which amounts to $40-$60 million per year in lost tax revenue–a number that will only increase over time, as real estate values continue to soar.

Kris Coffield · Chairperson, Democratic Party of Hawai'i Education Caucus · (808) 679-7454 · kriscoffield@gmail.com

HB-286-SD-1
Submitted on: 3/25/2021 10:20:21 PM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Christy MacPherson	Individual	Support	No

Comments:

I strongly support this bill. HB286, HD1 SD1 will finally lay a solid foundation to start holding REITs accountable by gathering the accurate data necessary to determine how much revenue Hawai`i is missing out on and how much it could be investing in housing, services, jobs and everything else that our people desperately need.

HB-286-SD-1
Submitted on: 3/27/2021 8:26:23 AM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ellen Godbey Carson	Individual	Support	No

Comments:

Please pass this bill. We need to know REIT income and consider taxation of it to establish fair tax burdens. Without knowledge or taxation of REIT income, we are losing our tax base on some of our most valuable and profitable properties in Hawaii. Thank you.

HB-286-SD-1
Submitted on: 3/27/2021 9:24:23 PM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
John Kawamoto	Individual	Support	No

Comments:

My name is John Kawamoto, and I support HB 286 HD 1 SD 1, which mandates that the Department of Taxation (DOTAX) equire real estate investment trusts (REITs) to notify DOTAX of its presence within the State and to report information that includes assets and revenues generated annually.

REITs play a significant role in Hawai'i's economy. They use Hawaii's business infrastructure, which is supported with the corporate income tax. All other for-profit corporations pay the corporate income tax, but due to a loophole, REITs avoid it.

Proposals have been made to subject REITs to Hawaii's corporate income tax, but REITs claim that the revenue would be so small that it wouldn't be worth the effort. Others claim that REITs earn an estimated $1 billion in profits on which a corporate income tax would be based, and would result in $60 million in tax revenue.

This bill would resolve the issue of how much tax revenue would be realized if Hawaii's corporate income tax were applied to REITs.

For the foregoing reasons, I support HB 286 HD 1 SD 1.

HB-286-SD-1
Submitted on: 3/28/2021 4:25:34 PM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
L.M. Holmes	Individual	Support	No

Comments:

This bill is a good first step, but would be much improved by amending to actually tax REIT's. We cannot afford these boondoggle tax giveaways; it's time for these investors to pay their share.

HB-286-SD-1
Submitted on: 3/29/2021 11:02:18 AM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
John D. Smith	Individual	Support	No

Comments:

I support.

HB-286-SD-1
Submitted on: 3/30/2021 7:14:57 AM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Marilyn Mick	Individual	Support	No

Comments:

Aloha, While HB286 is a good first step towards taxing REITs, what is needed is to amend the Bill to actually tax REITs.

It is more than deplorable that this Legislatiure continues to want to tax unemployment benefits while allowing these multi million dollar REIT investments to avoid Hawaii taxes.

HB-286-SD-1
Submitted on: 3/30/2021 9:18:25 AM
Testimony for WAM on 4/1/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Matthew Geyer	Individual	Support	No

Comments:

Aloha,

Please continue to support this measure so we can continue to work to ensure more corporations don't exploit the REITs tax loophole.

Matthew Geyer